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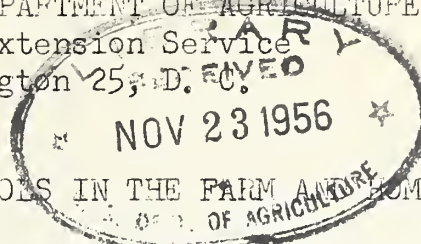


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CREDIT AND OTHER FINANCIAL TOOLS IN THE FARM AND HOME UNIT APPROACH

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I. Importance of Financing in the Farm and Home Unit Approach to Extension Teaching

A. Usually farm and home improvements involve financing.

1. Investment may be needed in the business and in the home for land, buildings, equipment, livestock, housing, and longtime consumers goods.
2. Control of the production factors not owned may be obtained by leasing, father-son agreements, purchase contracts, inheritance, and credit.
3. Expenses for farm production, family living and payment of various taxes must be met out of liquid savings or credit before the receipt of income.
4. An adequate farm and home program normally calls for insurance, including at least life, property, and liability, and the accumulation of some form of savings or reserves.

B. The increase in the scale of commercial farming and the war produced inflation have contributed about equally to a tremendous growth in the size of the farm business as measured in dollars.

1. The capital needed to provide a full time job in 1940 averaged about \$5,000 and in 1955 runs \$15,000 to \$20,000.
2. The total realized net income of farm operators in the country rose from \$4.3 billion in 1940 to \$16.8 billion in 1947, but by 1954 dropped to about \$12.0 billion.
3. The investment in farm real estate rose from 1940 to 1952 by nearly 200% and in farm machinery and equipment by more than 400%.

C. The farm and home unit approach will, it appears, be directed largely to families who are likely to need to borrow money, including:

1. Younger farm families, usually not yet fully established on an economic unit.
2. Farm families faced with major adjustments in their businesses.
3. Families requiring increased income from the farm or from off-the-farm business.
4. Families interested in fairly extensive soil or water conservation practices or home improvements.

D. A few surveys indicate that many farmers still are:

1. Prejudiced against real estate mortgage credit, the most economical source of borrowed funds for major capital purposes.
2. Unfamiliar with availability of credit from PCA's, insurance companies and other low cost lending agencies.
3. Making extensive use of trade credit especially for machinery purchases at high cost and even using small loan companies with still higher rates.
4. Inadequately informed concerning the various other financial tools and contracts to give control of property and protect risks.

II. What Is Being Planned Related to Credit in the Farm and Home Unit Approach

- A. Extension workers developing plans in the States agree that financing is one of the major problems that must be dealt with in the farm and home unit work.
- B. The planning forms normally carry through to a net worth or financial statement and an operating statement or annual budget for the farm and home business. They often also bring together a summary statement of the amounts involved in investments for farm and home improvements.
- C. The operating statements are focused on net farm income and not on total available for investment or debt payment. This figure can be found by adding certain items in the operating statement but the fact may not be brought out.
- D. There needs to be a form available to make a financial plan where annual expenses in the early years may exceed income. It should make provision for spacing out over a series of years both the investments and the repayments.

III. Obstacles and Opportunities for Including Financial Planning in the Farm and Home Unit Approach

A. Obstacles

1. The biggest difficulty is the psychological block in the minds of extension workers and to a lesser extent of farm people to freely discussing financial situations.
2. The lack of training among extension workers, particularly county workers, for budgeting expected receipts and expenses and analyzing a farm family's financial statement.
3. A similar inadequacy in training with many for developing a sound plan for financing needed improvements for the farm and home.

B. Opportunities

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1. Production Credit Associations and many banks, particularly those with agricultural representatives, develop rather full plans for short term financing. Their forms will be helpful and they are personally available as consultants for extension people to go to for information and advice. Then, too, farm families requesting loans from them will almost always get the benefit of skilled guidance in planning the use and repayment of borrowed money.
2. National farm loan associations, insurance companies and some other long term lenders will usually be glad to provide similar consultant services and eager, wherever a good loan is to be made, to arrange for sound mortgage credit on a plan suited to the farm and the family.
3. Appraisers for Federal land banks, insurance companies and the Farmers Home Administration can often be induced to give appraisal clinics or demonstrations for extension agents. Usually a college man should be trained to conduct this type of work where farm families are to be the participating audience at such meetings.
4. Responsible executives of these and other lending agencies including farmer directors of the PCA's and NFILA's can be effective supporters of the farm and home unit program where they are kept adequately informed as to its purposes, procedures and types of plans developed.

A SUGGESTION FOR FINANCIAL PLANNING

Annual Summary Page for Farm and Home Development Work Books
(A second form setting up a budget might well be used)

Cash Resources Expected This Year

Amount

| | | |
|-------------------------------------------------------------------------------------------------|----|-------|
| Net Cash Farm Income | \$ | _____ |
| Net Cash Income Other Sources | \$ | _____ |
| A. Total disposable cash income | \$ | _____ |
| (This would include amounts assignable to depreciation and to interest on equity investment) | | |

Fixed Obligations To Be Met This Year

| | | |
|--------------------------------------------------------------|----|-------|
| Amount needed for family living and spending | \$ | _____ |
| Income Tax and Social Security Payments for Family | \$ | _____ |
| Life Insurance on Family Members | \$ | _____ |
| Payments on Debt Principle | \$ | _____ |
| Other | \$ | _____ |
| B. Total Fixed Obligations | \$ | _____ |
| C. Available for Investment or Savings (A-B) | \$ | _____ |

This Year's Investments Planned for Farm and Home

| | | |
|-------------------------------------------------------------------------------|----|-------|
| Purchase or improvements on land | \$ | _____ |
| Improvements to Farm Buildings, Home, Fence, etc. | \$ | _____ |
| Machinery and Equipment | \$ | _____ |
| Livestock for Breeding, etc. | \$ | _____ |
| Other | \$ | _____ |
| D. Total Planned Investments | \$ | _____ |
| E. Surplus or Deficit (Difference between C & D) (Plus or Minus) | \$ | _____ |
| F. If E is surplus, use of the amount | | |
| U. S. Savings Bonds | \$ | _____ |
| Stocks | \$ | _____ |
| Savings Deposit | \$ | _____ |
| Other | \$ | _____ |

| | | |
|------------------------------------------------------------------|--------|-----------------------|
| G. If E is a deficit | Item | Amount |
| What if any items should be postponed? | _____ | _____ |
| For what items should money be borrowed? | _____ | _____ |
| How will they be financed? | Amount | Length of Time Needed |
| Long Term Loan | _____ | _____ |
| Short Term Loan | _____ | _____ |
| Plan for Repayment, source of income, amounts, and time expected | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |

